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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

NFAC#6431-81  
22 October 1981

National Intelligence Officers

MEMORANDUM FOR: Director of Central Intelligence

FROM:

[REDACTED]  
Chairman, National Intelligence Council

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SUBJECT: Global Economic Issues and Estimates

1. Action Requested: Approval of Concept Paper and Terms of Reference for Global Economic Assessment. [REDACTED]

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2. I believe that your far ranging objectives on improving our assessments of global economic issues are best approached on two tracks: 1) a series of annual global assessments which would focus on the next year or two and, in addition, would treat in only a sketchy fashion most of the longer range problems; and 2) a systematic research effort on these longer term economic issues which would become a central feature of future annual assessments. [REDACTED]

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3. A useful assessment can be prepared for publication by the end of January, based mostly on research already done. Among the critical longer term issues you have raised, the only one we are able to address in an integrated and sophisticated fashion is energy. We will also deal, necessarily in a more cursory way with problems and opportunities in industrial markets such as computers, telecommunications, electronics, and automobiles. [REDACTED]

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4. Although a great deal of expertise on such questions as Japanese technological development, the factors affecting relative productivity, and the influence of economic institutions and government policies on economic competitiveness, exists in the private sector and some good but narrow work has been done in CIA, our effort in these areas is really just beginning. During the next few months we will be identifying in a concrete way those economic sectors and issues other than energy and food which most deserve an intensified collection, research, and analytical effort in CIA. In this process we will seek advice widely in the private sector. [REDACTED]

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Revw on 22 Oct 87

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5. NFAC is in the process of formulating their research goals in this area. The research program will be made available to you by NFAC when it is completed.

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6. Attached for your approval and information are a Concept Paper and summary Terms of Reference for the first annual global economic assessment. (C)

7. D/NFAC concurs in this approach. (C)



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Attachment:  
As stated

cc: DDCI  
D/NFAC

APPROVED:

15/  
Director of Central Intelligence

2 NOV 1981

Date

NIO/E  (22 Oct 81)

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TAB A

Global Annual Economic Assessment:Concept Paper and Terms of Reference

1. The paper is intended to be a tightly focused economic assessment aimed at providing policymakers with a clearer picture of the economic risks, vulnerabilities and opportunities which they will face over the coming year. The text should be about 20-30 pages in length; annex material will consist mainly of charts, tables and methodological explanations. It will be issued as a NIC Memorandum coordinated with the relevant agencies.

2. We intend to consult widely with government officials outside the Intelligence Community and with knowledgeable people in the private sector on the scope and focus of the project, on how to maximize its usefulness for policy purposes, and on the validity and interpretation of the results. The draft assessment will be submitted to review by the agencies interested in economic affairs. Formal coordination will not be sought, although important substantive or analytical differences will be noted.

3. We will look at the changing global economic environment to determine and analyze:

- emerging economic circumstances that could significantly influence the policymaking process;
- risks that could seriously hurt US interests at home and abroad;
- opportunities that could improve the chances of US officials to achieve policy objectives; and
- trends which only became recently visible but which may have important longer term implications for US interests.

4. To keep the scope of the assessment within manageable proportions, the section dealing with changing economic conditions and near term prospects will be covered in a brief as possible fashion and will draw upon the many available official and private forecasts. The effort will concentrate on 1982; longer term implications will be considered when appropriate. CIA's primary contribution will be to assess the economic, political, and military contingencies which could affect economic prospects. Basic economic trends will be analyzed mainly in order to establish a framework for assessing the impact of these contingencies. While the effort will entail systematically looking at many potential difficulties,

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risks and opportunities ahead, it will focus on those considered to be the most important for US and allied interests.

5. Within this context, we propose the following outline for the assessment:

- I. Economic Trends and Outlook - Brief presentation of global, regional and major country economic trends in 1982-83. Major official and private forecasts will be examined with discussion of underlying assumptions and range of differences in forecasts. Trends in economic growth, inflation, unemployment, trade, and financial flows will be considered. Major changes in direction -- for example, the likely US swing toward a larger current account deficit -- will be emphasized.
- II. The Major Risks and Vulnerabilities - A look at plausible but not likely economic, political or military events such as wars, revolutions, major policy shifts, economic warfare, and natural disasters which could trigger substantially different economic results. Specifically, we will assess:
  - the risks and potential impact of energy supply disruptions (for example, as a result of an expanded Iran-Iraq war or a radical takeover in Saudi Arabia).
  - debt moratoriums or defaults by major LDC's, such as Brazil; Communist countries, such as Poland and Romania.
  - large-scale crop failures in the USSR, China, India or the West.
  - interruptions of non-energy raw material supplies (for example, in Southern Africa).
  - the economic repercussions of such possible events as a Soviet invasion of Poland.
- III. Implications for US Interests - An examination of how changes in the global economic environment may present US policymakers with new constraints or opportunities in the pursuit of furthering US interests and initiatives. Specifically, this section will look at how likely developments as well as risks would tend to help or hinder policymakers in their pursuit of the following:
  - implementation of anti-inflationary economic objectives.
  - increased allied defense spending.
  - East/West economic links including initiatives on technology transfer and reduced West European dependency on Soviet energy sources.
  - greater LDC reliance on private investment for economic development.

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- increased liberalization of international trade in goods and services.
- lifting of foreign restrictions on US direct investment.
- stability of US food prices and farm incomes.
- reduced US dependence on foreign energy sources.

IV. New Perspectives on Selected Long-Term Issues - A look at recent trends that may have important long-term implications for US interests.

- The impact of the energy supply surplus on long-term energy supply and demand.
- A preliminary look at prospects in selected key market sectors such as computers, telecommunications, microelectronics, production technology, automobiles, commercial aviation, steelmaking, etc.